

Impact of the Telecommunications Act of 1996 for Rural Areas

The goals of the Telecommunications Act of 1996 include lower prices and higher quality services for customers. However, representatives of small telephone companies are concerned that rural areas will bear the brunt of the costs of a more competitive communications sector but receive few of the benefits. About 90 percent of 127 small telephone companies that responded to a nationwide survey believed that rural customers would benefit very little or not at all from the act's provisions. Rather, they believed the major benefits will accrue to business, high-toll (typically high-volume users), and urban customers, and to large telecommunications companies. State governments and public utility commissions may need to take action to ensure that rural residents have reasonably priced access to advanced telecommunications services.

The Telecommunications Act of 1996 (1996 Act) was passed to promote competition and reduce regulation in order to secure lower prices and higher quality services and to encourage the rapid deployment of new telecommunications technologies. The thrust of the 1996 Act is to substitute competition for economic regulation in local telecommunications markets. As such, the 1996 Act contrasts sharply with previous national policy (grounded in the common carrier provisions of the Communications Act of 1934), which was based on the concept that interstate and intrastate telecommunications services would be offered and regulated on a monopoly basis.

Most observers agree that the goals of the 1996 Act are desirable, and many believe that its provisions will ultimately lead to lower prices and higher quality services for the Nation's telecommunications customers. However, one of the concerns regarding the 1996 Act is that sparsely populated rural areas will bear the brunt of the costs of a more

competitive telecommunications sector but receive little or none of the benefits. Because rural areas are generally higher cost areas for providing telecommunications services, some fear that telecommunications companies (telcos) will forsake these relatively high-cost areas and focus their efforts to provide higher quality services and/or lower prices on the more profitable urban and metro areas. We undertook this study to learn what small telcos felt the impact of the 1996 Act would be on rural areas and on the smaller telcos that often serve them. Specifically, 127 telecommunications companies were asked (1) how they see their future in the light of the expected increase in competition; (2) how they plan to respond to the new competitive environment; and (3) how various classes of customers, including rural customers, may be affected.

Rural Telecommunications Customers May Benefit Less From New Act

The telco representatives who responded to the survey believed almost unanimously that competition in local telecommunications markets will increase as a result of the 1996 Act and that rural areas will be affected by the increase in local competition. However, over 80 percent of the respondents also felt that the competitive environment resulting from the 1996 Act would not serve the best

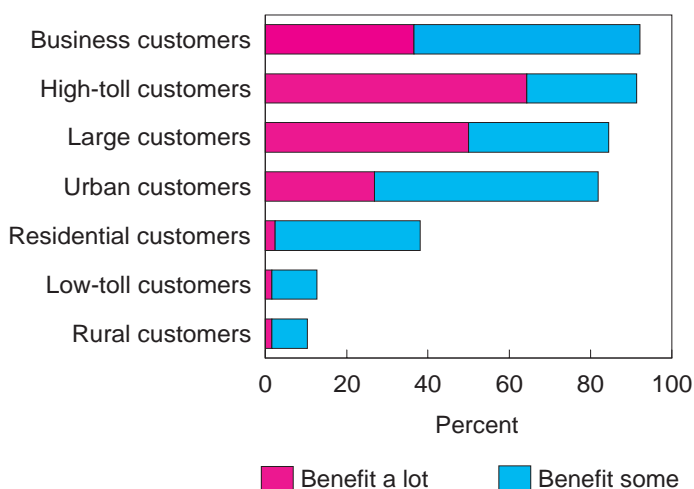
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interests of rural customers. Rather, they believed that the major benefits from increased competition would accrue to business, high-toll, and urban customers, and to large telecommunications companies (fig. 1). Only 10 percent of the respondents felt that rural customers would “benefit a lot” or “benefit some” from increased competition, about 32 percent felt they would benefit very little, and 58 percent expected rural customers not to benefit at all.

Figure 1

Survey responses to which customers will benefit from Telecommunications Act of 1996

Business and high-toll customers are expected to benefit most



Source: Small Rural Telephone Firm Survey.

The smallest telcos were most likely to believe that the 1996 Act would not serve the interests of rural customers. Among the respondents with less than 1,000 access lines, 90 percent indicated that rural interests would not be served, compared with about 56 percent of respondents with 10,000 or more access lines.

When asked about the effects of the new competitive environment on rates for rural and urban customers, 63 percent of all respondents expected rural rates to be higher than urban, about 24 percent expected the rates to be equal, and only 13 percent expected rural rates to be lower than those for urban customers.

The respondents expected access to advanced telecommunications services to increase for both urban (89 percent) and rural (80 percent) customers. However, most did not expect that current differences between rural and urban customers' access to advanced services (such as Internet access or high-speed data or video services) would decrease. Opinions concerning these differences varied somewhat by region, as about 64 percent of respondents in the Northeast expected the differences to decrease, compared with only 24 percent in the West.

New Environment Poses Problems for Small Telcos

The respondents viewed the competitive environment resulting from the 1996 Act as posing major challenges to small telcos. Almost 90 percent believed that other telecommunications companies are likely to take their best customers (a practice known as “creaming”) (table 1). The respondents also felt that the 1996 Act would result in

Table 1

Expected impact of Telecommunications Act of 1996 on business plans, 1997

Small telcos are expected to increase services regardless of eroding customer base and insecure financial future

	Agree	Disagree	Undecided
	Percent		
Facility upgrade plans are likely to be put on hold	61.4	36.2	2.4
The range of services small telcos offer will likely increase	69.3	28.3	2.4
Telco financing is likely to be harder to obtain	64.6	23.6	11.8
Telco expansion outside current service territories will likely be put on hold	37.0	54.3	8.7
The number of new employees hired will likely go up	37.8	55.1	7.1
The customer base of small telcos will likely erode	58.3	33.1	8.7
The financial future of small telcos is secure	11.0	81.9	7.1
Other telecommunications companies are likely to take the best customers from small telecommunications providers	89.8	9.4	0.8
The level of cooperation among small telcos is likely to increase	62.2	29.9	7.9
The competition between small and large telcos is likely to decrease	18.9	79.5	1.6

Source: Small Rural Telephone Firm Survey.

an increase in the range of services offered by small telcos (69 percent), but that telco financing would be harder to obtain (65 percent) and that facility upgrade plans are likely to be put on hold (61 percent). They agreed that the customer base of small telcos will likely erode as a result of "creaming" (58 percent), and that the level of cooperation among small telcos will likely increase (62 percent). They did not believe that competition between large and small telcos will likely decrease (80 percent disagreed), that the financial future of small telcos is secure (82 percent), that the number of new employees hired will likely go up (55 percent), or that telco expansion outside current service territories will likely be put on hold (54 percent).

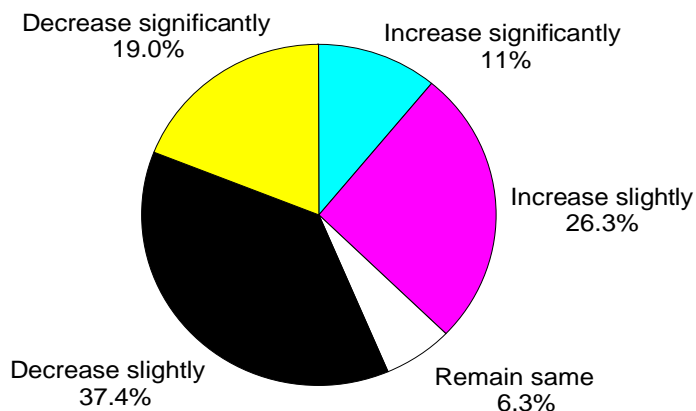
Considering the source and nature of increased competition, the respondents felt that wireless competitors, inter-exchange carriers (long-distance companies), and large local-exchange carriers were the most likely sources of competition. Most respondents (85 percent) felt that increased competition will most likely occur through resale, rather than through facilities-based competition. Competition through resale is generally less costly and more readily accomplished than competition that requires building infrastructure.

A majority (56.4 percent) of the respondents felt that the number of telecommunications companies would decline over the next 3 years, while 37.3 percent felt that the number of companies would increase and 6.3 percent expected no change (fig. 2).

Figure 2

Expected change in number of telecommunications companies within the next 3 years

The number of telcos is expected to drop



Source: Small Rural Telephone Firm Survey.

Most respondents anticipated that both business and residential telephone rates for rural customers would increase over the next 3 years, but that long-distance rates would decrease.

Rural Telcos Preparing for a More Competitive Future

The telco representatives generally agreed (81 percent) that future growth for their firms would be greater in the non-regulated aspects of their business (for example, Internet services and cellular telephone service) than in the regulated portion (such as local telephone and long-distance service). Nearly 94 percent of the larger telcos (more than 10,000 access lines) expected growth in the unregulated aspects of their business; 66 percent of the smaller telcos (less than 1,000 access lines) also expected growth in their unregulated business.

These companies seem willing to compete. When asked about changes they planned to make within the next 3 years to better position their business, 97 percent indicated that they would attempt to add to their service area. About 84 percent planned to add advanced services and 14 percent planned to maintain existing services. Only one firm planned to reduce its services. About 75 percent planned to add customer-based services (such as web page development and training for web page use), and 73 percent expected to invest in upgraded facilities and infrastructure. There was no difference in plans to add customer-based services by size of telco. Furthermore, about 64 percent of telcos who plan to add customer-based services also believed that the most prudent positioning for small telcos would be to add advanced services. About 61 percent of the firms planned to enter the long-distance market, while 34 percent expected to concentrate on the local exchange only (5 percent did not respond to this question).

The telcos were also asked about their plans to upgrade their copper facilities to fiberoptic cable, a prerequisite for implementing some types of advanced services. About 27 percent of the firms reported that they had already completed the upgrade to fiber, while about 41 percent were currently upgrading and 15 percent expected to upgrade in the future. Only 18 percent of the respondents did not intend to upgrade to fiber. There was no difference in plans to upgrade to fiber by size of telco. Nearly 90 percent of those who do not plan to upgrade to fiber also strongly agreed that the 1996 Act would put upgrade plans on hold for most small telcos. About 55 percent of those not planning to upgrade believed it would be prudent for small telcos to upgrade facilities and infrastructure. Alternatively, 70 percent of telcos who plan to upgrade, and 90 percent of telcos who have already completed upgrading, thought it would be prudent for small telcos to upgrade facilities and infrastructure.

Issues for State Regulators

This study examines small telcos' perceptions of the potential effects of the Telecommunications Act of 1996. Much of this study focuses on areas that State governments and public utility commissions (PUC's) can address. A particular concern is the potential slowing of infrastructure development in rural areas, especially by the smallest telcos with the fewest access lines. Because 61 percent of the telcos responding to this survey believed that facility upgrades will be put on hold as a result of the 1996 Act, State governments and PUC's may need to develop State-level plans to provide incentives or reduce barriers to facility upgrades if rural residents are to continue to participate in the global information society.

State PUC's will also need to monitor the movement of large telcos into rural areas. Given that almost 90 percent of the telcos surveyed believed that larger telcos will take their best customers, leaving the low-volume users (low-toll customers) for the local independent provider to service, regulatory mechanisms may be needed at the State level to ensure that rural residents maintain reasonably priced access to telephone services.

State regulatory commissions may also want to examine the currently unregulated services provided by telcos, given that 81 percent of the respondents indicated that they anticipate future growth to be greater in these aspects of their business than in the regulated portion. Some creative new activities by cable companies, such as providing alternative distance education for K-12 schools, may also come under scrutiny as definitions within the 1996 Act are litigated and established.

Although many rural telcos plan on placing upgrades on hold, they also expect that their competition will come primarily from resale rather than direct competition with new infrastructure (facilities-based competition). Maintaining up-to-date infrastructure may be overseen by State regulatory commissions if the competitive forces within the act fail to provide capitalization for new infrastructure. With 65 percent of the survey respondents believing that access to financing may become more difficult, regulators may need to monitor the credit situation.

In conclusion, the local telecommunications service providers surveyed do not expect the 1996 Act to benefit them or their rural customers. Because this study takes place as the 1996 Act is being implemented, time will tell if these perceptions become reality. These data provide a starting point to clarify issues about providing telecommunications service in rural areas as we approach the year 2000. However, major questions still exist about maintaining reasonably priced local service while upgrading infrastructure for access to more sophisticated technologies and services.

For Further Reading . . .

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